

Message Text

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PAGE 01 ISTANB 00780 150757Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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FM AMCONSUL ISTANBUL
TO SECSTATE WASHDC 9761
INFO AMEMBASSY ANKARA

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E.O. 11652: N/A
TAGS: EFIN, EGEN, TU
SUBJ: EFFECTS OF DEVALUATION ON OURSTANDING TRANSFER APPLICATIONS

REF: (A) ISTANBUL 700 (B) ANKARA 1810

1. SUMMARY. ALTHOUGH NO TREND MAY BECOME EVIDENT BEFORE LATE MARCH, TRADE AND BANKING CONTACTS DO NOT EXPECT ANY SIGNIFICANT WITHDRAWAL OF FOREIGN EXCHANGE TRANSFER APPLICATIONS FROM TURKISH IMPORTERS FOLLOWING NEW CENTRAL BANK DIRECTIVES (REF B). END SUMMARY.

2. OUR BUSINESS CONTACTS ARE UNANIMOUS IN PREDICTING GREAT RELUCTANCE ON PART OF IMPORTERS WHO HAVE PAID THROUGH BLACK MARKET OR WITH FUNDS ILLEGALLY HELD ABROAD TO WITHDRAW THEIR IMPORT PAYMENT TRANSFER APPLICATIONS FOR THREE BASIC REASONS: (A) FEAR THAT ONUS FOR ILLEGAL TRANSACTIONS WOULD FALL ON THEM DESPITE GOT'S ANNOUNCED " NO QUESTIONS ASKED" POLICY; (B) UNFAVORABLE TAX TREATMENT, I.E., TAX AUTHORITIES WILL CONSIDER COST OF SUCH GOODS ZERO TO THE IMPORTER; (C) IMPORTERS AND INDUSTRIALISTS WHO HAVE DRAWN ON FOREIGN EXCHANGE ASSETS HELD ABROAD WISH TO REPLENISH THEM BY MEANS OF EVENTUAL PAYMENT

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TRANSFER BY CENTRAL BANK.

3. ACCORDING TO SAME SOURCES, IMPORTERS WHO HAVE NOT YET RECEIVED THEIR MERCHANDISE ARE UNLIKELY TO WITHDRAW APPLICATIONS (MAINLY LETTERS OF CREDIT) WHICH HAVE BEEN PENDING FOR UP TO ONE YEAR BECAUSE FOREIGN EXCHANGE ALLOCATIONS WILL CONTINUE TO BE SEVERELY LIMITED, AND WITH INFLATION RUNNING 40 TO 50 PERCENT,

IMPORTS REMAIN A BARGAIN EVEN AFTER 30 TO 37 PERCENT DEVALUATION.

4. DEPUTY GENERAL MANAGER OF IS BANK, TURKEY'S LARGEST PRIVATE
SECTOR BANK, REPORTS THAT NOT A SINGLE REQUEST FOR TRANSFER WITHDRAWAL

HAS BEEN RECEIVED IN TWO WEEKS SINCE NEW REGULATIONS CAME INTO
EFFECT. HE SPECULATES THAT TOWARD END OF MARCH, WHEN FIRST
INSTALLMENT OF TURKISH LIRA DIFFERENTIAL FOR PENDING TRANSFERS
BECOMES DUE (REF A), SOME IMPORTERS WILL BE FORCED TO WITHDRAW
APPLICATIONS FOR UNCONSUMMATED TRANSACTIONS BECAUSE OF INABILITY
TO PAY. THIS WILL NOT HAVE EFFECT OF SHAKING OUT SPECIFICALLY ILLEGAL
TRANSACTIONS, HOWEVER. THE BURDEN ESSENTIALLY WILL FALL ON
SMALLER, FINANCIALLY WEAKER FIRMS. IS BANK ESTIMATES TOTAL
LIQUIDITY DRAIN WILL AMOUNT TO 15 TO 18 BILLION LIRA, IMPLYING
\$2 BILLION TO \$2.5 BILLION IN PENDING TRANSFERS.

5. COMMENT: IT IS WORTH NOTING THAT TURKISH IMPORTERS WHO
FACILITATE IMPORTS THROUGH BLACK MARKET OR UNOFFICIAL EXCHANGE
CHANNELS DO NOT, IN MOST CASES, PAY THE SUPPLIER IN FULL. MORE
COMMONLY, THE IMPORTER PAYS INTEREST OR MAKES PARTIAL PAYMENT
PLUS INTEREST WITH FOREIGN EXCHANGE HELD ABROAD OR PURCHASED
FROM TURKISH WORKERS IN EUROPE. THUS NO MORE THAN A SMALL
PORTION OF THE TOTAL AMOUNT PENDING TRANSFER BY THE CENTRAL BANK
IN FACT HAS BEEN PAID ILLEGALLY. SINCE THERE WILL BE A DIFFERENTIAL
BETWEEN OFFICIAL AND BLACK MARKET RATES SO LONG AS CURRENCY
CONTROLS EXIST, IT IS TO THE IMPORTER'S ADVANTAGE TO AWAIT AN
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OFFICIAL TRANSFER RATHER THAN ATTEMPT TO COVER HIMSELF ON THE
BLACK MARKET. THE RECENT DEVALUATION MAY HELP STEM FUTURE
IMPORTS, REDUCE DOMESTIC LIQUIDITY, AND BANKRUPT INDIVIDUAL
FIRMS, BUT IT IS UNLIKELY TO SHAKE OUT ILLEGAL TRANSACTIONS.

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